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# NATIONAL INTELLIGENCE ESTIMATE

## Algeria's International Relations

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## ALGERIA'S INTERNATIONAL RELATIONS

### NOTE

The portions of this Estimate concerning the implications of the proposed El Paso natural gas project in Algeria were prepared in response to a Department of State request for an intelligence assessment on this question.

### CONCLUSIONS

A. President Boumediene is clearly in charge of Algeria. His regime has no credible challengers in sight, but the system is dependent on his personal leadership. His departure from the scene could bring on considerable political uncertainty. Boumediene will continue pressing his policies of state ownership or control of all major economic enterprises in Algeria, and of developing heavy industry, even at the cost of agricultural stagnation and heavy unemployment.

B. Out of interest and sentiment, Algeria remains non-aligned and generally aloof from most other countries. Save for the Arab-Israeli dispute, it will continue to be little interested in most developments in Arab states and other parts of the Third World. But the Palestinian issue does arouse strong feelings in Algeria; in times of an acute Arab-Israeli crisis (as in June 1967) the government might feel compelled to take at least temporary action against Israel's supporters even at the expense of Algeria's own economic interests.

C. Boumediene skillfully plays off the major powers against one another. The USSR has provided nearly all of Algeria's arms and some

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economic aid, and France a variety of economic and other benefits including some military assistance in recent years. Much expensive American equipment and many technicians are being used by the national oil industry. In addition, the US offers a potentially large market for Algeria's gas reserves. In no case, however, have the Algerians allowed themselves to come under strong influence from any outside power, nor are they likely to.

D. A substantial oil producer, Algeria will continue to rely on rising oil revenues to pay for its increasingly expensive development projects. Its February 1971 partial nationalization of two French oil companies (the only large foreign-owned concerns left in Algeria) promises Algeria increased income from its petroleum. Though this move set off a fairly serious crisis with the French, tensions are now receding. An accord has been reached with one French company and, over time, probably will be with the other one as well.

E. But Algeria's best hopes for added income probably lie in its mostly unexploited natural gas reserves, which are among the three or four largest in the world. Its first effort to export major quantities of natural gas has been its agreement with the El Paso Natural Gas Company of the US. If this is approved, the Algerians would begin shipping gas to the US in the mid- or late-1970s, and would initially receive about \$120 million a year in new export earnings. Algeria probably sees this as but a beginning and will push for further foreign gas sales.

(Section III assesses the implications of approval or disapproval of the El Paso project, and Algeria's long-term reliability as an energy supplier.)

## DISCUSSION

1. Algeria has had more of an impact on the international scene than its small population and its newness as a nation would seem to warrant. This has resulted, at least in large part, from the actions of an aggressive and intensely nationalistic leadership which has decolonized and socialized the country's economy, adroitly played off several of the great powers for its own benefit, and given loud verbal and some material support to insurgencies in various parts of the world.

2. The Algerian commitment to a non-aligned international posture seems to run deep, yet its attitude toward the US will also continue to be conditioned by its irritation over the US stance in the Arab-Israeli conflict. Such factors, along with the Algerian Government's record of extremely tough dealings with foreign oil companies, raise questions both about the general course of US-Algerian relations over the next several years and about Algeria's long-term reliability as an energy supplier for the US and Western Europe.

## I. DOMESTIC SCENE

### A. The Regime and its Policies

3. President of the Revolutionary Council and of the Council of Ministers Houari Boumediene is clearly in charge; he directs a dictatorial regime, albeit not a very tyrannical one. Long the chief of the armed forces, he seized power from Ahmed Ben Bella in 1965. Since then he has consolidated his power, purged his opponents, quashed an attempted coup in 1967 by the then armed forces' Chief of Staff Colonel Zbiri, and put those loyal to him in the important posts. Boumediene is almost totally lacking in charisma, a respected but somewhat withdrawn figure. His authority derives not from mass popularity but from the well equipped, well paid, and loyal Algerian military and security establishment, particularly the 60,000-man army.

4. If Boumediene's personality has seemed enigmatic, his policies are not. He has, over the years, put virtually all remaining foreign-

owned properties and assets under Algerian ownership or control. Until independence, Algeria was dominated—politically, socially, and economically—by the French. The 1962-1963 exodus of 90 percent of the million French residents of Algeria meant the abandonment of their prosperous agricultural properties, their government sinecures, and many of their commercial enterprises to their former subjects. But a number of factories, businesses, mines, oil operations, and other enterprises continued under French and to a lesser extent other foreign ownership. Since 1965, virtually all of these have been taken over and are now being run by the Algerians themselves.<sup>1</sup>

5. Beyond ending foreign ownership and control, the regime has ambitious long-term plans for the development of the nation's economy, which has a mix of weaknesses and strengths. On the minus side, Algeria has a problem of population pressure on available arable land—a problem exacerbated by a very high birth rate. (Population is now 14 million people; the rate of increase is 3.1 percent a year.) Unemployment is extensive both in the cities and rural areas. Most Algerians are still poor farmers, dependent on the weather for the growth of enough wheat to feed themselves. Nearly all the best agricultural land had been taken over by French settlers, who made most of it into large estates producing wheat, citrus fruit, and wine for the metropole. These properties are now operated by the ex-employees of the departed owners along with recently arrived war veterans and landless peasants; management standards, productivity, output, and personal incomes of the

<sup>1</sup> At least until recently, the government has shown little interest in socializing the properties of those relatively few affluent Algerian professional men, estate owners, and capitalists who had previously thrived under the French. This hands-off policy appears to be changing, however. For example, an agrarian reform law just published calls for the breakup of large Algerian-owned landholdings.

farmers themselves have all dropped sharply. Further, the former protected French market for wine has been cut off, and many Algerian vineyards are being slowly converted to the production of other crops.

6. Though agriculture is the occupation of most Algerians, it is a matter of fairly low priority to the government, which continues to allocate limited resources to it. Rather, the regime is out to develop heavy industry on a large-scale, and has many of the assets needed for such an effort. Besides having a highly developed infrastructure inherited from colonial days, the country is rich in exportable mineral resources: principally oil, natural gas, and some iron ore. Algeria's gas reserves are large, but only a fairly small amount has so far been exported. Petroleum is another matter; Algeria is an important world oil producer. Its income from the sale of oil reached some \$650 million in hard currency in 1970 (71 percent of its export earnings). This has enabled the regime both to build up foreign exchange reserves of several hundred million dollars, and to begin work on an ambitious scheme designed, perhaps over two or more decades, to make Algeria an affluent industrial power. This effort will be extremely expensive; it will require ever larger imports of costly capital goods which in turn will depend on the receipt of more and more foreign exchange. Greatly enhanced export earnings over present levels, along with fairly strict austerity at home to restrain import levels, will be needed to carry out such a program.

7. The Boumediene regime has been actively pursuing these policies over the past few years. A general belt tightening and higher taxes have been imposed. Private foreign travel is discouraged. Strict controls over import of consumers goods are in effect. A number of import substitution industries, such as textiles, have been built. Efforts to get more petroleum revenues from—or in spite of—the French

have been pursued with tenacity. With the proposed El Paso agreement to export natural gas to the US, efforts to earn large sums from Algeria's rich gas deposits have begun.<sup>2</sup> Ten to 15 percent of current oil earnings are being plowed back into exploration for more revenue yielding oil reserves, and for the construction of more pipelines. The principal planned industrial projects now underway, a steel mill and three petrochemical complexes, are designed not to provide many new jobs, but to bring in new export earnings and to provide further import substitutes. Concentrated government efforts in these fairly limited areas have led the overall Algerian economy to grow at a statistical rate of 5-6 percent a year, despite the poor performance in the agricultural sector and the continued low living standards of most of the people.

8. Algeria continues to proclaim itself a socialist state, but it is an unusual one. In practice, it is developing something akin to state capitalism. Government corporations, with varying efficiency, now operate such specific sectors of economic activity as mining, textiles, and petroleum—in all of which they have a monopoly. Within the limits of basic central government policies, each corporation is more or less autonomous. The best known and most effective of these is SONATRACH, the state corporation responsible for petroleum and natural gas. Developed by the able Belaid Abdesselam, now the Minister of Industry and Energy, SONATRACH has shown itself capable of handling virtually all aspects of the petroleum industry, including exploration, extraction, refining, and marketing. In these efforts they have had extensive help from hired foreign advisors including Americans. It is too early to tell whether SONATRACH will retain its present high standards, or whether other state corporations will come

<sup>2</sup> Paragraphs 34-46 below discuss the El Paso project in detail.

to approach them. If they do, such competent management would be of great assistance in achieving Algerian development goals.

## B. Political Prospects

9. We know of no current serious opposition to Boumediene or his policies in the government or the armed forces. The public at large apparently continues to demonstrate the political apathy prevalent since the end of the independence war. The government's long-term development program, even with the austerity it entails, appears to have fairly general acquiescence, save for the small but hard pressed middle class. Nonetheless, the Algerian regime—no matter how stable it now appears—remains a vulnerable one. The marginal living standards of most of its farmers, the gross lack of employment opportunities, the additional hardships imposed on the people by the development program, the presence of a small educated bourgeoisie chafing under rule by hardnosed, socialist army officers add up to the potential for expressions of mass public unrest. There is no way of predicting if or when popular explosions might occur, but they cannot be ruled out.

10. The present system is highly dependent on the continued personal leadership of Boumediene. There is no Deputy President or generally recognized number two; neither is there any institutionalized procedure for choosing a successor. A new constitution was promised years ago but has never been promulgated. Some controlled local and regional elections have been held, but there have been no national ones. There is a single official political party, the National Liberation Front (FLN), and it is seeking to reorganize and strengthen itself. But the FLN is so inherently weak and subordinate to the government as to make it a negligible political force. Algeria is still too new and its political traditions and institutions too undeveloped to

permit a very confident assessment of long-term prospects were Boumediene to lose his grip or leave the scene altogether.

11. Were he to do so, the surviving principals in the Council of Ministers and the army would probably step in at once and seek to play the major role in ruling the country; they might institute some form of collegial rule. But without Boumediene's strong direction, splits—brought on both by ideological and personal differences—and infighting could easily develop over time. Indeed, there are already reports of disputes among the top leadership; at least one minister is alleged to oppose the regime's austerity measures. Boumediene's defeated rivals, Ben Bella and Colonel Zbiri, are still alive—the first under detention and the second in exile; they both probably have some backing in the country. In any event, while the domestic scene now appears stable and quiet, Algeria's longer term political future is far from assured.

## II. FOREIGN AFFAIRS

### A. Algeria's Foreign Outlook

12. As a strategically located, potentially wealthy, moderately influential Arab-African country, the Algerian Government is inclined both by interest and sentiment to avoid alignment with any of the Great Powers. Rather, it normally seeks, in the classic Third World pattern, to play major outside states off against each other for its own benefit, and it has become quite skilled in doing so. At the same time it stubbornly resists efforts of outsiders to interfere in its affairs.

13. Ideology and sentiment, much of it created during the bloody 1954-1962 war of independence, usually incline the Algerians the same way. During that war fought against the French, Algeria got little or no assistance from either the US or the USSR (for, of

course, very different reasons), at least until it became clear that victory was inevitable.<sup>3</sup> Fellow Arabs provided arms, safehaven, and verbal support, but were careful not to become directly involved. Whatever outside assistance they received, the Algerians believe that, basically, it was because of their own fighting and heavy sacrifices that they won their independence. Innately suspicious of outsiders anyway, and not particularly grateful to anyone, they cherish freedom of action, and are very sensitive to any external pressures.

14. Most politically aware Algerians have very strong feelings on the Arab-Israeli dispute, feelings which could lead to moves against those considered to be allies of the Israelis—particularly the US which, in the eyes of many Algerians, is tainted with other sins as well. In times of acute crisis, these sentiments can become so strong that the regime cannot ignore them. In the June 1967 Arab-Israeli war, public opinion was so aroused that the government felt impelled, though probably reluctantly, to impose a temporary embargo on all trade with the US and UK (alleged to be fighting alongside the Israelis) and to break diplomatic relations with the US (those with the UK had been severed previously). Though these moves had little short- or long-term practical effect, the regime might, in a comparable situation, again feel it would have to take similar measures, even at the price of damage to the Algerian development effort or the economy as a whole.

15. Other than in such critical times, the Algerian Government does not pay much attention to the Mideast situation. Despite its

<sup>3</sup> The Algerian rebels did receive substantial arms, public support, and diplomatic backing from the Chinese fairly early on. But in recent years, the Algerian-Chinese relationship has been one of long distance cordiality. China provides virtually no economic or military aid and the level of mutual trade is very low.

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rigid anti-Israeli stance, its public rejection of a cease-fire, its avowed refusal to countenance any compromise settlement with the Israelis or to abandon the rights of the Palestinian Arab people, the Boumediene regime's actual military and economic involvement is negligible. In 1967 it did send a small military force to join the Egyptians along the Suez Canal, but withdrew these troops in 1970 when the Israeli-Egyptian cease-fire provided an excuse. Algeria does provide Palestinian guerrillas with arms, training, and verbal support—much as Arab countries far from the battlefield aided it in its own war of independence. Otherwise, the Algerian leaders publicly and privately express a low opinion of Eastern Arab officials and their military forces; they are likely to continue, as much as possible, to avoid real involvement in the problems of the Middle East.

#### **B. Relations with the Third World**

16. Algerian policy toward the rest of the Third World is partly a function of geographical proximity. Tunisia and Morocco have loomed quite large, beginning with the early 1960s, when relations with both were seriously strained by mutual suspicions and as a consequence of Moroccan and Tunisian claims on large parts of Algeria. In 1963, Morocco bested Algeria in a brief border war; relations were tense throughout the area during much of the 1960s. Subsequently, for a variety of reasons including the shelving of the border claims and a gradual appreciation of their common interests, the situation has greatly eased. Relations have so improved that the three countries now envisage such modest cooperative ventures as a joint international airline. Though unforeseeable incidents could change this picture, Algeria's relations with Tunisia and Morocco seem likely to remain fairly placid. Wealthier, having no territorial claims against its neighbors, possessing the most

powerful military force in the area, Algeria now sees little threat in the Maghreb, and maintains good bilateral relations with all its neighbors. These circumstances will permit Algeria to concentrate on its own parochial problems, though it will continue to give lip service to the idea of some loose federation of the Maghreb states, and will hope eventually to become the dominant state in the area.

17. Algeria's reaction to the abortive coup in Morocco was a careful one of restraining comment until the situation became clear. Although the Algerians sympathize with the idea of a republican Morocco and consider it likely to come in time, the Boumediene regime fears the advent of an erratic nationalistic Morocco, particularly one which might revive territorial claims against Algeria, and thus apparently now prefers predictable rule by King Hassan to uncertain alternatives.

18. Algeria's relations with Africa have been marked by a declining patience with the liberation movements and a growing emphasis on governmental relations. The Boumediene government continues to support those African rebels fighting the Portuguese, Rhodesians, and South Africans with modest inputs of arms, training and propaganda. But its attention has turned to improving relations with individual African states such as its Saharan border neighbors—now objects of Algerian aid and training—and certain states sharing other common interests.

19. Algeria's relations with most of the other, more distant peoples of the Third World are relatively aloof. The principal exceptions to this have been the Vietnamese Communists whom for years the Algerians have sincerely and vehemently supported. The Algerians believe the Vietnamese Communists have much in common with themselves in that they have, at considerable sacrifice, mounted a major,



sustained, and not unsuccessful struggle against a great power. Further, the Algerians are asked for nothing but political, diplomatic, and propaganda support—all of which are emotionally satisfying, sincerely given, and cheap. As far as the other lesser powers of the world are concerned, the Boumedienne government pays little attention to them save as potential customers.

### C. Relations with the USSR

20. When Algerian independence came in 1962, formal diplomatic relations with the Soviets were established, but little else. But as Ben Bella proclaimed himself a socialist revolutionary and an ideologue somewhat on the Castro model, a thaw ensued and the Soviets extended large offers of economic aid. When Algeria's ill-equipped army came off second best against the Moroccans in the fall of 1963, Ben Bella turned to Moscow for military supplies and got a quick and gratifying response. By 1964, Algeria was being vigorously lauded in the Russian media; Ben Bella was accorded a hero's welcome in Moscow and ties became quite close. Ben Bella's ouster in 1965 did not immediately change the appearance of things; the Maghreb was engaged then and for some years in a cold war of its own. The Soviets were accused of, or suspected to be supporting Algeria in its quarrels with Morocco and Tunisia; the US came in for similar accusations about backing Algeria's hostile neighbors. An image of Algeria was publicized by some of its enemies depicting it as a new North African Cuba, loyal to the socialist camp, under the strong influence of if not direction from Moscow, shouting defiance at and promoting revolution throughout the non-Communist world.

21. Such charges were not completely without foundation, at least in the days of Ben Bella. During 1963 and 1964, the USSR ex-

tended \$231 million in economic credits, and \$235 million in military grants and credits. Since Boumedienne took power, the Soviets have extended \$5 million in economic credits and \$150 million in military assistance, including a \$100 million agreement signed in February 1971. The Algerian Armed Forces are almost completely equipped with Soviet armaments. These forces are of course dependent on Moscow for spare parts, ammunition and the like. Some 1,000 Russian military technicians are in Algeria as instructors in the use and maintenance of Soviet furnished equipment including 149 jet fighters/fighter bombers, 325 tanks, 9 guided missile patrol boats, and air defense radar and weapons including SA-2 missiles. About 2,000 Soviet economic technicians are also present under the economic aid agreement.

22. The Soviets have not been able to translate this significant investment of military and economic aid into a similar amount of influence over the Boumedienne government. Although, under usual international rules, the Soviet Navy may with prior permission call at certain Algerian civilian ports, all Soviet attempts to obtain naval and air bases have been sharply rebuffed. Contrary to some recent reports there are no Soviet combat units, or Russian-piloted Tu-16s or Foxbats in Algeria.

23. There are several factors which have curbed Soviet influence. Most of the military and economic aid was extended in Ben Bella's day. Economic credits have been drawn down very slowly; the Algerians show a marked preference for Western equipment and know-how. The Algerians have sought to limit their dependence on Soviet military support by buying small amounts of such French equipment as jet trainers and by arranging for military training programs in France and to a smaller degree in other West European countries—

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e.g., Italy.<sup>4</sup> The Algerians are also probably aware, whatever their dependence on the USSR for ammunition and military spare parts, that there is little likelihood of these being cut off. A Russian arms embargo imposed on a non-aligned, Arab, often anti-Western and pro-Soviet country would have extremely unfavorable repercussions throughout the Middle East and the Afro-Asian world so far as Moscow is concerned.

24. Further, while normally not openly critical of Soviet foreign policy, Algeria does not go along with Moscow on everything. Thus it has regularly denounced the Russians for supporting the Middle East cease-fire and the various efforts in and out of the UN to find a peaceful solution in that area. The Algerian leaders have also demanded the departure of all foreign—including Russian—naval forces from the Mediterranean. Thus while Algeria has ties with the USSR which are often very useful and profitable, in the last analysis its policies parallel those of the USSR only when Algeria's own definition of its interests and sympathies dictate. The ultimate test of this assessment would be whether the Algerian Government would—like Egypt—permit regular Soviet military forces to be based on its own territory. We doubt it very much. Unlike Egypt, Algeria is not critically dependent on the USSR for its defense, and it is hard to conceive of its becoming so. It would probably take extreme circumstances, such as another Arab-Israeli war in which the US was believed to be directly involved on the Israeli side and the USSR was thought to be fighting with the Arabs, to impel the Algerians to grant even temporary base privileges to the Soviets.

<sup>4</sup> Similarly the Algerians have blunted French economic pressures by selling wine—embargoed by Paris and mostly unsalable elsewhere in the West—to the USSR, though on less favorable terms to Algeria. Most vital export revenues, of course, are earned in Western Europe and the US, and the Algerians clearly intend to keep it that way.

25. The city of Algiers has become, and remains, a principal safehaven for revolutionary exiles from all over the world. American Black Panthers, Quebec separatists, and South American prisoners released as ransom for political kidnappings have been accepted and given accommodation. This of course derives from Algeria's own "revolutionary" heritage. Algerian enthusiasm for these non-African exiles—whom it provides little or nothing more than the equivalent of room and board—may be waning. To our knowledge, Algeria supports and subsidizes none of their activity against their respective homelands. Rather it has viewed some, such as Dr. Timothy Leary, with open hostility and others, such as Brazilian revolutionaries and the Black Panthers with obvious discomfort.<sup>5</sup> One reason, no doubt, is the incompatibility between extending support to revolutionary militants on the one hand, and the desire for reasonably good relations with the governments they oppose on the other.

#### D. Relations with the West

##### France

26. Oil was discovered in Algeria by the French in the 1950s, and production has grown continuously since. By 1970, output was close to one million barrels per day (bpd). The value of this oil is enhanced by its very low sulfur content and the fact that the fields are west of Suez and relatively close to European markets. When Boumediene took over in 1965, French companies produced about 70 percent of the total, other European and

<sup>5</sup> In early July, Algeria announced a set of stringent guidelines on the treatment of airplane hijackers. If applied, they guarantee at least an initial term in jail for anyone hijacking a plane to Algeria in all but the most exceptional circumstances. Thus were an American citizen to hijack a plane to Algiers, he would automatically be granted asylum only if the US Government requested this be done.

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American firms the rest. The non-French producers were taken over by the Algerian Government between 1967 and 1970, and all were eventually nationalized with mutually agreed on compensation.

27. Algerian relations with the two French companies (ERAP and CFP) operating the remaining foreign-owned fields became more and more strained in this period. Negotiations between the two governments stretched on for nearly two years, and became more and more acrimonious and inconclusive.<sup>6</sup> Finally, in February 1971, the Algerian Government unilaterally nationalized enough of the French companies' assets to raise its participation in them to 51 percent. Algerian managers were put in charge, prices sharply raised, and compensation arbitrarily set.

28. The moves set off a serious though temporary French-Algerian crisis, with many angry words and some acts by both sides. The French announced that the "special relationship" with Algeria was dead. According to the French, this meant that over time Algeria would no longer be given special privileges (particularly as contrasted with Tunisia and Morocco) with respect to immigration quotas, to tariff preferences, to technical assistance programs at reduced costs, and to special quotas for wine imports. Of immediate impact was the termination of a \$65 million a year financial aid program. Further, the French Government gave up responsibility for negotiating with the Algerians on oil matters and turned it over to CFP and ERAP. These com-

<sup>6</sup> Under the Franco-Algerian "special relationship" instituted by de Gaulle, petroleum agreements were to be worked out on a state-to-state basis, and entailed political as well as economic considerations. The recent negotiations covered a variety of disputes and issues, some of a general political nature, some quite technical. In the last analysis, however, nearly all were concerned with Algerian efforts (and French resistance) to get control of operations and to obtain more money for the oil.

panies' initial response was tough—withdrawing French technicians from fields and refineries, rejecting Algeria's terms for nationalization, refusing to lift any more oil from Algerian ports, buying substitute oil elsewhere, and threatening to take legal action against anyone who bought Algerian oil (though they have not carried out this threat).

29. The Algerians responded by imposing a boycott on imports of all but the most essential French goods, and harassing French residents in Algeria. They also issued announcements about a series of favorable agreements between SONATRACH and a host of American corporations associated with the petroleum industry. Of greater consequence were active and—so far—relatively successful efforts by SONATRACH to market the oil from the formerly French-owned properties. By June 1971, something over half the previous levels of petroleum exports were being regularly sold to independent oil dealers in Europe.<sup>7</sup> Algeria, no longer sharing the income with CFP and ERAP, was then getting about the same revenue as before February 1971. Prospects are that sales will continue to rise.

30. French recognition of this fact, along with the continuing strong, though partly intangible, ties which still exist between the two countries, have brought about an easing of the situation, and indeed the likely end of the crisis. Algeria and CFP have signed a new agreement apparently involving compromises on both sides. CFP accepted the terms of nationalization and promised further investment in its share of operations. The Algerians agreed to 20 percent higher compensation for properties taken over, and apparently—though we do not know the exact terms—to provide CFP

<sup>7</sup> At the time of nationalization, SONATRACH was producing roughly 300,000 bpd, ERAP 340,000, and CFP 280,000. In addition a few small French and American companies collectively produced something under 100,000 bpd.

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with oil at prices lower than they had initially decreed. ERAP has begun negotiations with Algeria. Its somewhat different circumstances are bound to make the process of reaching an agreement more complicated (CFP's Algerian holdings amounted to only about 20 percent of its overseas producing assets before nationalization; in ERAP's case the figure is roughly 80 percent). Nevertheless, an eventual accord with ERAP now seems likely, though not certain.

31. Even if difficulties with ERAP continue, official Franco-Algerian relations appear to have stabilized. The two remain major trading partners. Algerian workers in France remain economically useful to both.<sup>8</sup> French language and culture struck very deep and pervasive roots in the 130-year occupation (9 percent of the Algerians read and write only French, 5 percent only Arabic, 11 percent both) and this will continue for decades at least. Both parties continue to value the French cultural and technical aid program, under which some 6,000 French teachers and several thousand technicians are in Algeria. Politically the two are not likely to be very cooperative; disputes, some acrimonious, are almost certain, but none now appears likely to bring on a permanent rupture in Franco-Algerian relations. Algeria serves as an important link for France with the Arab world. France of course will serve as a useful counter to other great powers, e.g., a potential supplier of arms and training if the Soviets prove diffi-

<sup>8</sup> There are now over 600,000 Algerians in France. They hold low paying, menial jobs which Frenchmen refuse to accept. Serving as a safety valve for the Algerian population explosion, they also repatriate about \$200 million a year to the homeland—supporting a number of unemployed relatives and bolstering Algeria's exchange position. Barring a total—and unlikely—rupture between the two nations, the present Algerian residents in France will probably not be disturbed.

cult, and as a potential source of skills and market for gas if the US were to present problems.

### *The United States*

32. A number of issues will continue to trouble US-Algerian relations. These include Algerian resentment of US supply of military equipment to France during the independence war, Algerian dislike of most US foreign policies, the nationalization of US firms in Algeria, the sharply differing ideological outlooks of the two countries, normal Algerian suspicions of foreigners, and safehaven given exiles from the US. But this again is not the complete picture. Determined to increase their export earnings, the Algerians have evidently concluded that the US, of all the developed countries, offers the most sophisticated skills and the highest quality equipment needed to develop and operate complex modern projects. And of course they see the US as a source of development capital and as a potentially lucrative market for exports of Algerian natural gas. Thus despite a good deal of harsh rhetoric, a number of steps have been taken over the past few years which have put US-Algerian relations on a more amicable basis than before.

33. Several hundred highly trained and well paid US specialists have been hired, mostly by SONATRACH but also by other state corporations and the government. Much sophisticated US equipment is being imported. Several joint ventures, with an Algerian state corporation holding 51 percent of the shares and a US firm 49 percent, have come into operation. These include such schemes as construction of an elaborate computer center and various advanced oil exploration projects. The cumulative value of these projects is not negligible. There is little trade between the two countries, outside that related to the petroleum industry. In 1969 Algeria imported about \$80 million in goods and services from the US.

34. Along with this has been, over the past few years, the evolution and negotiation of the proposed El Paso project, which would provide substantial quantities of Algerian natural gas to the American market by the mid- or late-1970s. If finally approved, it would entail total investment (at 1970 prices) of about \$1.2 billion, with the costs split about evenly between SONATRACH and the El Paso Natural Gas Company. SONATRACH, with loan and credit guarantees from the US Export-Import Bank amounting to \$285 million, would build a large gas liquefaction plant and a pipeline to the Hassi R'Mel gas field. The latter is a sizeable one; even with the large volumes contemplated, only about 10 percent of it would be exploited. El Paso would order from 6 to 9 specially built liquid natural gas (LNG) tankers, and construct facilities on the east coast of the US to recon-vert the LNG into gas. The entire operation, even if approved immediately could not go into production until 1975-1976 at the earliest, after which time Algeria would begin receiving about \$120 million a year in export earnings from it. But of course the agreement would imply making the US a much larger trading partner earlier than that.

35. There is little doubt that the Algerian Government has put a very high priority on this arrangement, and for good reason. Algeria's natural gas reserves are enormous (exceeded only by those of the US, the USSR, and possibly Iran), and mostly untapped. They provide probably the only potential for sharply increased earnings of the foreign exchange needed for the country's ambitious industrial development programs.<sup>9</sup> With non-polluting natural gas coming into greater demand in nearby Western Europe as well as

<sup>9</sup> Algeria's proven petroleum reserves in relation to output are relatively small. Some experts believe that unless substantial new reserves are discovered soon, output will actually begin to drop within a few years.

the US, the Boumediene regime clearly sees the El Paso project as the first step in what could ultimately become a very large, very profitable enterprise.<sup>10</sup>

36. The spade work and negotiations with respect to the El Paso project have led to a noticeable lessening of frictions between the Algerian Government on the one hand, and the US Government and American private firms on the other. US oil properties which were originally sequestered or confiscated have now been paid for on mutually agreed terms. Day-by-day bilateral discussions are generally businesslike and not characterized by propagandistic rancor. Vietnam and Israel are not forgotten, but they are no longer very active subjects of debate. US-Algerian relations are now—from the Boumediene government's point of view—principally concerned with finding mutually acceptable means of enhancing Algeria's profitable energy exports. In this context, the outcome of the pending El Paso project will play a major role in determining future US-Algerian relations.

### III. IMPLICATIONS OF THE EL PASO PROJECT

#### A. The Short-Term Outlook

37. Beyond a certain level of generalization, Algeria's immediate courses of action following approval or disapproval of the El Paso project cannot be specifically estimated in advance. Approval would strongly reinforce the present even, businesslike atmosphere of US-Algerian relations, but it would lead to no marked shift in Algeria's international outlook, much less in its relationships with other

<sup>10</sup> It should be noted that while in February 1971 Algeria nationalized 51 percent of the French company's petroleum assets, it took over 100 percent of their gas deposits. Prior to that time it had had the right to purchase all the gas it wanted at the cost of production.

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powers. The Boumediene regime sees the El Paso contract as a commercial venture, and approval of the deal would not give the US much political leverage over the prickly Algerians. They would not react to US approval of the project with a burst of gratitude, nor would they refrain from, say, counseling the Libyans on courses of action which could ultimately lead the oil companies there (90 percent US-owned) to face a future similar to that of the companies formerly in Algeria.

38. Whether approval would lead the Algerians to take the initiative in restoring diplomatic relations with the US is an open question; there are reasons for and against their taking such a step. A formal diplomatic relationship would enable each side more fully to staff its embassies, and thus facilitate further commercial transactions. But the two powers retain Interest Sections in the respective capitals which have become embassies in everything but the formal trappings of protocol. They provide—as the El Paso negotiations have shown—adequate means for the two countries to deal with each other. Further, the break in 1967 was essentially a symbolic protest against US Middle Eastern policy; in Algerian eyes, the latter has changed but little. Other Arab countries that broke relations with the US in 1967 have not made any move to restore them. For all their independence of, and sense of superiority to, other Arabs, the Algerians are likely to be wary about taking such a conspicuous first step, particularly if it seemed to be part of a single commercial project. But, over time, particularly if other economic ties should grow, the prospects of restoring diplomatic relations would be enhanced as a result of the El Paso deal.

39. Disapproval of the El Paso operation would, of course, bring forth angry reactions. Just how angry, and just what concrete steps would follow would depend to some extent on the manner in which the rejection was an-

nounced. If done in such a way as to lead the Algerians to believe they were being insulted or blackballed for political reasons, the reaction could be fiery, at least in a verbal sense. And a rejection would almost inevitably be ascribed to political motives. Other than the Interests Section itself—which might be expelled if the Algerians felt provoked enough—there are virtually no tangible US assets available for the government to seize as reprisals. The several hundred American specialists employed by SONATRACH might receive some personal harassment, but being “unofficial” they are not likely to be expelled. The Algerians would probably denounce the US in such organizations as OPEC and throughout the Arab world. Radical oil producers in that area, e.g., Iraq and Libya, would be sympathetic to Algerian complaints, but rejection of the El Paso project would probably not in itself lead them to take any new immediate anti-American steps.

40. Despite its pique with the US, we doubt that Algeria could or would turn east and seek from the Russians what they could not get from the EL Paso Natural Gas Company. They are almost certainly aware that the USSR does not need the gas, probably could not soon produce the LNG tankers to ship it, and lacks the foreign exchange to pay for it. They might take out their immediate resentment on the French. The ever wary Algerians suspect Paris of plotting to kill the El Paso deal, both to keep the Americans out of their sphere of influence and to punish the Algerians for their recent anti-French acts. Though the great bulk of French properties have already been taken over, there are still enough French interests—e.g., their remaining 49 percent holdings in the oil companies and their large export market in Algeria—to make them more vulnerable than others to retaliatory actions. Whether the Algerians would actually retaliate against the French is essentially unpredictable, but would

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depend, among other things, on whether the French might be prepared to step in to take the gas originally intended for the US.

#### **B. The Longer Term Outlook: Algeria's Probable Reliability as an Energy Supplier**

41. If the El Paso contract is approved, it is to run for a period of 25 years. No one can posit with much certainty Algeria's—or most other countries'—reliability as an energy producer over so long a period. We list below those factors bearing on the problem which are most likely to be of continuing relevance.

42. Incentives for the Algerians to continue shipments of gas to the US, even in time of severe political stress, are strong, and likely to get stronger over the years. Algeria needs the money, and as time passes it will need it even more. Despite its oil revenues, it is not just another rich Mideastern oil producer; it has 16 times the population of Kuwait, while producing only a quarter to a third as much oil. Unlike Kuwait, Libya, Abu Dhabi, and other wealthy Arab mini-states, Algeria has not and cannot pile up huge foreign exchange reserves simply because it lacks ways of usefully spending the money. From an economic point of view, Algeria's situation is more like that of Iran; it is committed to spending ever more on increasingly costly development schemes.<sup>11</sup> As projects get further along, it will become more and more difficult for Algeria to do without the regular increment of funds needed to continue them; it is easier

<sup>11</sup> Like Algeria, Iran has a fairly large population and promising economic potential. Iran embarked on an expensive economic development program long before Algeria did. This is now well along, has so far been successful, but has become increasingly costly. Levels of exchange reserves are low; indeed foreign indebtedness is increasing. Ever more strongly committed to the program, the Iranian Government is both endlessly wrangling for more money while showing great care not to bring about even a temporary halt in income.

to discard plans for a steel mill than to abandon it three-quarters completed. This would almost certainly remain the case even if the present or a future Algerian regime were to shift its priorities from building heavy industry to promoting employment through subsidized labor intensive industries; any economic plan aimed at boosting living standards will require very substantial funding.

43. Further, natural gas is Algeria's real hope for greatly increased revenues over the next several decades. Geological surveys to date indicate that it will not be able to rival countries like Venezuela or Saudi Arabia in volume of petroleum produced. But Algeria may very well become the world's principal exporter of gas; over the longer term both the amounts extracted and the revenues received may become very great indeed. One of the important prerequisites for bringing this about is to make the product attractive enough to generate a rising demand for it and to attract the huge amounts of capital necessary to exploit it. Such Algerians as Belaid Abdesselam (and very probably Boumediene) are well aware that playing politics with gas sales is not the way to lure more customers.

44. Rational economic interest is not, of course, necessarily going to be the determinant of Algerian policy in all circumstances. We have discussed above an element in Algerian thinking—the intense anti-Israeli sentiments—which could motivate Algerian actions harming it as much or more than the targets of its ire. Specifically, Algeria could, in the heat of an Arab-Israeli crisis, ban the export of natural gas to the US.<sup>12</sup>

45. Such a ban could have no great practical effect before 1975 at the earliest. We cannot know who will be in charge then. An impetuous, doctrinaire leader like Ben Bella

<sup>12</sup> It might also do so in the heat of some other crisis situation, e.g., another Algerian-Moroccan war if Morocco were backed by the US.

would be far more inclined to cut off shipments than the more practical Boumediene. The degree of damage the Algerians believed they could inflict on the US and El Paso by an embargo would also be a factor. The very nature of the El Paso project is such that there is almost nothing in that country owned by El Paso which the government could seize, other than say office furniture and automobiles. Nor with El Paso owning and controlling most if not all the LNG tankers, could the Algerian Government arbitrarily divert gas shipments elsewhere. If it thought such an act would impose real damage on the American economy, it might be more inclined to take such a step than if it believed the US had alternative sources of supply available or would suffer only minor inconveniences.

46. To sum up, we cannot entirely rule out—in times of crisis—irrational, impetuous

acts by the Algerian Government against US economic interests in general and the El Paso Natural Gas Company in particular. But even if such moves were undertaken, they would be more likely than not to be of short duration; economic incentives to resume would reassert themselves once the political purposes of an embargo had been assured. In general, however, the Algerians are likely to be a reliable commercial partner if a deal is made. Indeed, because of small foreign exchange reserves and probable increasing dependence on additional revenues from gas sales, Algeria is less likely than most other Arab producers of hydrocarbons to impose a long-term embargo on the US.<sup>18</sup>

<sup>18</sup> By 1975, Libya will have exchange reserves so large (perhaps \$5 billion or more) that it could shut down all oil production and live on the interest it would draw. Algeria cannot, for decades at least, hope to be in a comparable position.